

CITIZENS LEAGUE REPORT

No. 256

WHY NOT BUY SERVICE ?

An alternative system for the delivery
of public services

September 1972

WHY NOT

BUY

SERVICE?

A challenge to government and to the
private sector in Minnesota to
develop an alternative system
for the delivery of public services

Citizens League
530 Syndicate Building
Minneapolis, Minnesota 55402
338-0791

Approved by the Board of Directors

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MAJOR IDEAS

- * We believe the expanding field of urban services would be better handled if more of them could be bought by government. If, that is, there were a variety of organizations able and willing to supply programs, among which public bodies could choose . . . and if government were operating, directly or indirectly, as a strong and skillful purchaser.
- * This new approach to the delivery of services . . . this addition of a competitive element to the system . . . can be a useful stimulant to most public services -- including education, corrections, welfare, transportation.

Its principal early application, however, is likely to be in the new and growing "social services" programs: day care. . . the rehabilitation of offenders. . . the rehabilitation of alcoholics. . . manpower training and placement. . . housing services (increasingly, as important as housing construction). . . health care.

- * This is the central conclusion of our year-long study of the public sector in Minnesota. . . and of the changes resulting from the expansion of public responsibility into areas in which government has not traditionally been the deliverer-of-service.

Two insights, in particular, have been important in our analysis. We now see that:

- * The current concern about government -- expressed in rising demands for accountability. . . objectives. . . economy. . . priorities. . . choices. . . innovation -- requires not so much new programs as it does new arrangements for the handling of services, and new ways of making decisions about what is furnished, and what is received.
- * Government is, fundamentally, a provider of services. It has, frequently, been itself the producer of these services, with its own staff and facilities. But it can, equally, be a purchaser, contracting for services from other suppliers, much as it does, now, for buildings.
- * We see two different situations in which this concept can be applied:
 - * The first covers those areas in which government has long been a producer . . . frequently the sole producer. . . of the service, and in which decisions about how and by whom the service is to be supplied must (for one reason or another) be made by government. Corrections is the classic example. In these areas, we urge government to explore contracting as a stimulus to other potential suppliers to appear as alternatives to the existing system.
 - * The second covers areas in which public responsibility has only recently been asserted, and in which government is now not the (or not the dominant) producer. Health care is an example. . . or housing, or day care. In these areas, we urge other potential suppliers, and especially business organizations, to come into the field, to provide the new ideas and the resources of money and of management which are now conspicuously lacking.
- * A significant effort to increase the number and the volume of services handled through essentially "purchase" arrangements would be sound public policy . . . because it is the essence of a purchase, or contract, to force attention to precisely those questions that are now the center of public concern about government: What do we want? . . . What are our choices? . . . What did we pay? . . . What did we get? . . . Can we do better elsewhere?

More specifically, the following gains might be achieved:

- * Public boards might have their time dramatically freed up . . . so that time now devoted to the problems of their employees could be spent, instead, thinking about the needs of their constituents.
 - * There could be much more scope for alternatives, and choices, as policy bodies move to meet public needs. The introduction of even limited opportunities for choice should, in turn, significantly increase the responsiveness of institutions that had, previously, been sole suppliers.
 - * The emphasis on choices will, in turn, force an increased emphasis on objectives and on goals . . . on "where are we going, anyway? . . . which is also, we believe, something the public now desires.
 - * We will then be able, too, to move faster to implement new programs . . . since public bodies will be drawing heavily from resources of personnel, facilities and technical and managerial experience existing in the community . . . rather than having, with each new program, to set up a new governmental agency 'from scratch.'
 - * The community would then have -- as, in many areas, it now does not -- a 'yardstick' by which to measure the performance, the responsiveness, the accountability of its present institutions. These existing institutions will not be supplanted. But they will be stimulated.
 - * Real pressures will then be generated, also, for innovation . . . for new ways of doing things. Too often, at present, we 'hold constant' the present arrangements, so that the pressure of rising costs results as a demand for increased appropriations, or -- failing that -- a reduction in service levels. The purchase of service through fixed-price agreements, on the other hand, will put heavy pressures on suppliers (as they try either to make money or to keep from losing it) to try different approaches . . . in particular, to make much fuller use of existing, and expensive, facilities and staff.
 - * Government will have an expanded ability to change its priorities, with changing needs. Service programs can be both started and terminated more quickly in contract arrangements.
- * *We believe this is a challenging possibility. It is just that: a hypothesis. We cannot prove that it will, in fact, work. We do argue that it should be tried.*
- * *We believe it imperative, therefore, that government -- as it expands its responsibility for urban social services -- examine carefully the feasibility and desirability of its (or, indirectly, its recipients) purchasing services from other public or private organizations.*
- * *We urge other organizations . . . business organizations, in particular . . . to take the initiative by developing their capability for the delivery of services, and by coming forward with proposals of their own.*

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PREFACE

1. *We urgently need to think through the implications of the changing definition of the "public sector" and of "public problems."*

The Citizens League was chartered in 1952 to carry on a continuing research and educational process with respect to "government." The very broad charge contained in its articles of incorporation refers to ". . . governmental affairs . . . governmental functions . . . the welfare of the citizens . . ."

This organization was not alone, by the late 1960s, in experiencing increasing difficulty in defining the scope of this assignment. Government was, clearly, being attracted into areas which it had not, traditionally, occupied. And, at the same time, basic questions were being raised about the adequacy of government's performance in those areas in which it had traditionally been given responsibility. Government was undertaking new policy responsibilities, at least, in functional areas formerly regarded as "private." And non-governmental agencies were beginning to seek, and in some cases to receive, responsibility in areas previously regarded as "public."

In 1968 the Citizens League took an important step by broadening the range of subject areas in which it was active . . . moving on beyond its traditional emphasis on problems of government organization, planning and finance into the areas of social programs, and problems, then beginning to receive increased attention from governmental and non-governmental agencies alike.

In the course of a series of studies in these areas we came fully upon the growing difficulty in defining "public" and "private"; "governmental" and "non-governmental." Not uncommonly, projects which began with a problem of a clearly governmental agency broadened -- in the course of a committee's deliberations -- to include the problems, or performance, of clearly non-governmental and private organizations. Our study, which began with the problems of Hennepin County General Hospital, for example, ended with considerable attention being paid to the organization of private medical practice and the planning and development of private hospitals. A study of housing, which began with the development programs of the public housing authorities, ended with an examination of the performance of the private housing industry.

It was clear from this that the "public sector" had become bigger than "government." And it was not at all clear that all "public" problems should, or could, lead to "governmental" solutions. Our committee examining the problems of health care delivery, for example, ended with little feeling that hospitals should be either governmentally owned or even, necessarily, governmentally regulated.

2. *This Task Force has, therefore, under its charge from the Board of Directors, tried to reassess and redefine the central issues of the "public sector."*

In June 1971 the Board of Directors received a report from its Executive Committee in which basic questions were raised about the future of the Citizens League's research and study program, with respect to this unfolding discrepancy between the extent of "public policy responsibility" and of "governmental operations."

The Board agreed that an in-depth exploration should be conducted of: (1) Whether non-governmental institutions that are performing, in effect, public functions

should also be considered appropriate for study by Citizens League committees, and (2) whether solutions to public or community problems might appropriately be addressed by Citizens League committees to non-governmental, as well as to governmental, organizations for action.

The conduct of this exploration was assigned back to the Executive Committee, which was, for this purpose, supplemented by the appointment of about a dozen additional members of the Citizens League whose background and/or current activities provided them with an important knowledge or perspective on these public/private issues. This enlarged group -- identified as the Policy Planning Task Force -- began, then, a set of discussions with outside individuals, thoughtful about the role and performance of the public sector. Meetings began in July 1971, with the Task Force seeking, generally, an understanding of what government was doing, and should be doing; of what the private sector was doing, and might be doing; and of what the Citizens League specifically could, and should, be contributing over the coming five-year period.

The Task Force was exceptionally enriched by a succession of opportunities to meet with persons from the Twin Cities area and from around the country, who have thought extensively about the changing scope, and role, of the public sector. The list of persons good enough to volunteer their time and knowledge with the Task Force included:

- * D. W. Angland and Jack Schutz, Northern States Power Co. July 15, 1971.
- * Fred Farthing, Northwestern National Bank, Minneapolis. July 15, 1971.
- * Aaron Lowin, American Rehabilitation Foundation. July 15, 1971.
- * Elliott Perovich, as Mayor of Anoka, July 15, 1971; as principal of Roosevelt Juniot High School, Anoka-Hennepin District 11, May 18, 1972.
- * Ray Lappegaard, State Highway Commissioner. July 22, 1971.
- * Russell V. Ewald, Foundation Services, Inc. July 22, 1971.
- * Philip Harder, Former President, Minneapolis Urban Coalition. July 22, 1971.
- * Roger Wheeler & Gary Lohn, Control Data Corporation. July 28, 1971.
- * Eugene Eidenberg, George Seltzer, Arthur Harkins & Richard Woods, University of Minnesota. July 28, 1971.
- * Paul Ylvisaker, Professor of Public Affairs & Urban Planning, Woodrow Wilson School of Public & International Affairs, Princeton University. Oct. 7, 1971.
- * Luther Granquist, Legal Aid Society, October 12, 1971.
- * Helen Miller & Lu Larson, Loring-Nicollet Center. October 12, 1971.
- * Charles Pillsbury, Council for Corporate Review. October 12, 1971.
- * Jack Collins, Minneapolis Model Cities Policy & Planning Committee. Oct. 12, 1971.
- * Milton Moskowitz, Editor, Business & Society Newsletter, San Francisco, October 22, 1971.
- * Judson Bemis, then President, Minneapolis Urban Coalition. October 26, 1971.
- * Hugh Harrison, Active Urban Coalition member, October 26, 1971.
- * Harold Bangert, attorney and insurance company executive, Fargo, North Dakota, November 3, 1971.
- * Charles Krusell, Director, Greater Minneapolis Metropolitan Housing Corp., November 17, 1971.
- * Ray Harris, B. W. & Leo Harris Co. November 11 & 24, 1971.
- * Archibald Spencer, attorney. November 25, 1971.
- * William A. Strauss, President, Northern Natural Gas Co., Omaha. Nov. 30, 1971.
- * Jack Cann, Minneapolis Tenants Union. December 1, 1971.
- * Anthony Downs, Senior Vice President, Real Estate Research, Corporation, Chicago, December 14, 1971.
- * James Summer, President, General Mills, Inc. January 18, 1972.

- * Gregory Coler, Director, Greater Minneapolis Day Care Ass'n. Jan. 25, 1972.
- * Ike Smith, State Department of Corrections. January 26, 1972.
- * Richard O'Neill, housing consultant, former editor of "House & Home." Feb. 2, '72.
- * Dr. Paul Ellwood, American Rehabilitation Foundation/Institute of Interdisciplinary Studies. February 17, 1972.
- * DelRoy Peterson, Minneapolis Planning & Development Dept. February 25, 1972.
- * Patrick McInnis, Village Manager, Village of Burnsville. February 25, 1972.
- * Dr. James Kent, Director, Southeast Alternatives Program, Minneapolis Public Schools. March 2, 1972.
- * Linda Hutchinson, Education Exploration Center. March 2, 1972.
- * Dr. Allen D. Calvin, Chairman of the Board, Behavioral Research Laboratories, Menlo Park, California. March 22, 1972.
- * David Fogel, Commissioner of Corrections, and Gary Herzberg, State Department of Corrections. March 29, 1972. (Also Herzberg again on April 26, 1972.)
- * Dr. Helen Knudsen, State Department of Health. April 5, 1972.
- * Dr. Nancy Anderson, School of Public Affairs, Univ. of Minn. April 5, 1972.
- * State Representative Gary Flakne. April 5, 1972.
- * John Broeker, Attorney, nursing home operators. April 5, 1972.
- * Jewell Goddard, Director of Court Services, Hennepin County. April 26, 1972.
- * Adrian Stier, Hennepin County Court Services. April 26, 1972.
- * John Desmond, Director of Public Development, Health & Welfare Planning Council, St. Paul. May 24, 1972.
- * Robert Speltz, Ramsey County Welfare Department. May 24, 1972.
- * Omar Schmidt, Hennepin County Health & Welfare Council. June 1, 1972.
- * Betty Danielson, Hennepin County Health & Welfare Council. June 1, 1972.

The membership of the Task Force included: Charles H. Clay, chairman, Tom Beech, Robert W. Bonine, John Brandl, Earl F. Colborn, Jr., Roland Comstock, Mrs. Jack Davies, Humphrey Doerrman, Gordon M. Donhowe, David Durenberger, Dr. Paul Ellwood, John Finnegan, John G. Harrison, William J. Hempel, James L. Hetland, Jr., Don Jacobson, Verne C. Johnson, Greer E. Lockhart, Robert W. MacGregor, Dean McNeal, Arthur Naftalin, William Pearce, Wayne H. Popham, Waverly Smith, O. R. Springsted, John M. Sullivan, Robert Van Hoef and Philip Von Blon.

3. *A meaningful report could be developed only by narrowing the range of issues under study.*

Not surprisingly, we discovered at a fairly early date that we had entered into a vast and complex area, and that some narrowing of the assignment would be both necessary and desirable. This conclusion was affected both by our sense of the limitations on our time and effort, and by our growing interest in particular questions which began to emerge as the discussion proceeded.

This narrowing of our assignment resulted in the decision to concentrate our attention in areas where government has now undertaken the primary policy and financial responsibility for the adequacy and distribution of a service. We would, then, examine the arrangements for the "delivery" of these publicly-financed services . . . whether the organizations involved are governmental, or non-governmental. And we would consider possible new arrangements which might permit services to be delivered with greater efficiency and effectiveness and with greater responsiveness to the needs of the persons served.

It is important to stress that this decision not to examine in detail other aspects of the public sector/private sector relationship is not, in our minds . . . and should not be taken to be . . . a conclusion that these other, unpursued

lines of discussion are less important. Our decision to narrow our focus reflects, instead, our sense that these other avenues were not so appropriate for us, or could not be investigated as well by us, or were being actively investigated by others, already.

There were, to be specific, two other aspects of this large problem of changing public sector/private sector relationships which we might have studied . . . and which, in the course of our discussions, we did consider.

- * We might have approached the change in public sector/private sector relationships as a problem in the scope of governmental responsibility for the operations conducted by non-governmental organizations. Strong arguments can be made, and were made, for example, that the impact of business operations on the environment, or on consumer health and safety, is the critical frontier in public/private relationships, and might usefully have been the focus of our discussions.
- * We might have approached the problem from the point of view of the private organizations searching, now, for contributions they can make to the resolution of major social and urban problems. We were aware, from our contacts early in our study, of the growing interest of business corporations and associations, specifically. Judgments, we know, are being sought on the feasibility of expanding the level of financial contribution to social causes, toward the permitted 5 per cent of pre-tax profits . . . and on the desirability of contributing personnel as well as dollars. Business firms, seriously interested and concerned, are seeking eagerly for help in defining and meeting their corporate social responsibility.

Our charge directed us particularly, however, toward the problems of the public bodies, and to consider whether, in their view, solutions to their problems are appropriate through non-governmental as well as governmental organizations. The other questions are real questions . . . but they are separate, and separable, questions . . . which it may be useful for other Citizens League committees to consider at another time. As we began our internal discussions we found we had, in fact, devoted our time overwhelmingly to the problems of "public goods" . . . and to the discussion of new ideas about their production and distribution. In the end, it seemed wise to conclude our investigation along this line and to make our report on this important, though limited, aspect of the problem. It does not mean we are unaware of that aspect of public/private relationships that has to do with the role of business -- and other organizations -- in the creation of public problems.

OUR BASIC CONCLUSIONS

1. *A dilemma is tightening around public services in Minnesota. Pressures are building to do more, in response to the needs of client groups. But the rising cost of existing program levels continues to frustrate most efforts to expand services from state resources.*
 - a. Present standards are high, particularly in the human services area. Minnesota's high national ranking in the "quality of life" comparison was due very largely to its No. 1 standing in individual equality, and health and welfare. These indices are made up of our governmental and non-governmental social welfare programs. This state's aspirations -- and, to a large extent, its performance -- are equally high in the field of education. Minnesota has

long pointed to the low rejection rate (in entrance examinations for the military) of high school graduates as evidence of a high quality elementary and secondary school system. We maintain a university of major national rank. The state has prided itself on the high proportion of families able to live in free-standing single family homes. In the private sector . . . and from the same total community resources . . . the state supports symphony orchestras, theatres and museums that it intends shall be the equal of any in the country.

- b. These service functions are extraordinarily vulnerable to increases in cost . . . composed, as they are, almost entirely of personal service -- present and past. Gains in productivity, which might somewhat offset the rise in salaries, are difficult to achieve. Equipment can be substituted, to some extent, for personnel. But, typically, this does not represent a major impact on the problem. And employees in the service activities do expect to share in the advancing level of incomes in the state and in the nation as a whole. So -- even apart from an increase in the level of program activity -- budgets tend to rise.

The increasing prices paid by governmental and non-governmental agencies for personal and professional service, has been a major factor, in recent years, in the growth of public budgets. Substantially increased sums have been required, year by year, to maintain even the existing level of services . . . let alone to increase the quality or quantity of services. The base of expenditure is now quite large, so that annual increases of even something less than the rate common in recent years will require very large additional dollar appropriations, and increased tax revenues. This is, perhaps, a particular problem in Minnesota, with its relatively large and high quality public sector. But it is, beyond this, a fundamental problem of the nation as a whole as it shifts increasingly toward a services economy -- private as well as public.

- c. There are signs the public is beginning to prefer to slow down the increase in total budgets, even at the expense of service levels. Reduced, or unprovided, services in the areas of health, education and welfare may, of course, increase costs in the long run . . . or in private accounts. But it is on public budgets that the controversy focuses. And it is short-run considerations that control. The continued funding of rising costs in the service sector of the economy, if it is not increasing its productivity, represents a continuing diversion of income out of other sectors of the economy that are increasing their productivity. This is, not unnaturally, resisted by the public. This resistance is manifested in the visible resistance, today, to increases in tax rates and frequently to the approval of major bond issues; in the election of candidates pledged to curtail the growth of public spending; and as programs are curtailed at budget time.

The commitment has been strong, in Minnesota, to quality public and community services . . . and over the last 20 years budgets and taxes have been increased substantially. But the state began this period with taxes at fairly low rates and with several major sources still untapped. During the past 20 years the state has put these remaining sources into use and rates have been pushed, on all sources, close to the point at which further increases could become counter-productive -- either for the continued support of public services or for the maintenance of the tax base on which the higher rates fall.

Some new sources may be found. And some rates may continue to rise, to some

degree. But it is, clearly, becoming essential to develop additional ways in which revenue can be freed up for the support of these major service functions.

- d. Continued, let alone expanded, public service budgets depend, basically, on continued public support. This support for higher budgets and higher taxes depends in turn on the maintenance of public confidence in its governmental agencies. This can be eroded by a growing sense that government is ineffective, inefficient, or unresponsive . . . and, currently, public opinion surveys are not reassuring about the level of general confidence in government as a major institutions. Clients are turning away from public housing, from public hospitals, from public schools.

2. *The problem posed for public budgets by rising unit prices is intensified by the pressures coming now from several groups, traditionally not well served, to expand also the quality of services and the range of services for which the public is responsible.*

Traditionally, in our system, the highest levels of public service have been claimed by the majority group. High service levels are therefore associated with middle class population and with the concentrations of population that occur in urban centers. But, increasingly:

- a. Demands are rising for equally high levels of service in areas of quite dispersed population. There is pressure to extend over the state as a whole essentially the service levels prevailing in the major metropolitan areas. Expenditures per pupil in the schools are beginning to be more equal. Roads are being upgraded. Health care facilities are being extended into areas where hospitals and specialized medicine did not previously exist. And a whole variety of services previously offered only in the major cities are being established in rural areas for the first time: mental health services, legal services (including the public defender), community corrections facilities.
- b. Demands are rising, too, for the extension of middle-class service levels to the low-income groups in the population. It is increasingly recognized that all too frequently in the past the state has provided an inferior level of public services and facilities to groups whose income or social status put them in a small and less influential minority. Today, pressures exerted by them, and on their behalf, represent a significant factor tending to expand the scope and cost of public services . . . in schools, in housing, in health care, in welfare, in transportation. These pressures are falling partly on the policy bodies which vote the appropriations and programs. And they are falling, in part, directly on the organizations -- the hospitals, the housing authorities, the welfare departments -- responsible actually for delivering the services.

The potential for difficult social conflicts, if resources for public services cannot continue to be made available, is fairly clear.

3. *Minnesota can respond to these demands for improved services and still minimize future increases in total budgets and in taxes only by finding ways to use limited resources more effectively.*

The central effort must be to make better . . . more productive . . . use of the dollars that will be available. Really, only two possibilities exist. The key concepts are (a) priorities and (b) utilization.

- a. We can improve our ability to reduce or terminate low-priority programs and services. At present, in effect, existing programs get priority over new

programs. We tend to carry forward the past pattern of needs and responses at existing levels . . . evaluating, year by year, pretty much only the marginal changes proposed in levels of expenditure. Efforts -- as in the direction of "zero budgeting" -- are now being made. But it remains difficult basically to reappraise the fundamental need for the continuance of a program at all.

- b. Where programs are to be maintained, an effort can be made -- even in the face of rising salary levels -- to hold down overall costs, through improved utilization of personnel and facilities. Not much real "economy" is to be found in the traditional approach . . . which cuts service or program without a reappraisal of the way in which staff, equipment and facilities are used. The real potential for meaningful savings lies in putting into use the excess capacity that frequently exists in staffs, in equipment, and in facilities. The existence of this under-utilized capacity has been in many ways the central finding of a series of Citizens League studies in the last several years . . . with respect to schools, to transportation, to airports, to housing, to health care. (These findings about under-utilization are reviewed, and described, in some detail in the discussion section, page 26 ff.)

4. *The effort to secure this kind of improved utilization of resources, while not impossible, is difficult within the governmental system as it traditionally has been organized and operated.*

Our basic public sector institutions developed gradually over the course of the last century. They were structured for conditions existing at that time. They change slowly. It is the persistence of their fundamental characteristics into the present, and quite radically different, situation that is the source of the problem. Specifically:

- a. The institutions for (as we now say) "service delivery" are now proving to be insufficiently responsive. The administrative organizations . . . or bureaus . . . developed during this period were, in many respects, designed deliberately to be insulated from pressures. They have little fear of failure.

- * Typically, they were established with the idea that they would be permanent. It was not provided, or assumed, that their continuance would depend upon the accomplishment of the mission to which they were assigned.
- * There has consistently been an effort . . . described variously as "monopoly" or "prevention of duplication" . . . to establish but one bureau for a particular function in a particular geographic area. Inevitably, therefore, comparisons about performance have been difficult, if not impossible to make. And, where an organization is the only existing organization for the supply of a service, it becomes indispensable . . . and can, thereby, also be protected from searching evaluation. No alternative to it exists.
- * Intensive efforts were made, successfully, to protect these administrative organizations from the risk of corruption and from the impact of political patronage. These also, however, further decreased responsiveness.
- * Within many of these organizations, once thus protected, strong traditions of professionalism grew up. Goals and standards tended to be set increasingly by professional bodies, rather than by either the policy body, on the one hand, or the recipients of the services, on the other.

- * Taken together, these elements produced little incentive to restrain the growth of costs and programs. The organization was typically responsible for a single function. Strong pressures existed to do a better, and bigger, job. Revenues did not necessarily decline if costs rose, since the services were not paid for by the users, but were provided free and financed by appropriations.
- * Employees of these organizations were compensated on a salary basis . . . typically receiving no more in salary if costs were held down and no less if costs rose. In practice, in some cases, of course, just the opposite.

None of this represents any condemnation or criticism of the employees who have accomplished so much, over the years, in the delivery of services in all parts of the country and at all levels of government. It speaks only to the question of the basic organizational system in which they are involved, and to which they logically and rationally respond.

- b. Institutions on the policy side have traditionally been insufficiently strong to secure a response. In many cases:
 - * Policy issues were not effectively identified and presented. Information simply was not gathered and organized, with respect to program and performance. As a result, many boards seldom got deep enough into the problem to consider basic changes. Their own capacity was limited . . . with members frequently serving part time, and supported by staffing that was thin, where it existed at all.
 - * Policy boards have tended to be composed, at least in significant part, of persons affiliated in one way or another with the organizations or institutions actually delivering the services. This set up strong forces which tended to frustrate any basic policy review.
- c. Non-governmental organizations -- even those delivering essentially public or community services -- have not commonly been viewed as part of the system for the delivery of public services. Traditionally, the need to discharge public responsibilities has led to the creation and the use of government agencies. Where private operations touched the public health, safety or welfare they were, of course, regulated. But the public was -- until recent years -- slow to begin consciously planning for the functions of private organizations. Nor would its efforts to do so have been well received.

- 5. *A basis for new incentives to stimulate responsiveness is now being laid, however, by four trends now under way in Minnesota. Essentially, what is emerging is a new view that sees government -- the state government, particularly -- now primarily not as an administrator but as a buyer of services.*

This is so large, and so slow-moving, a change that it has been difficult for our Task Force to discern and to define. A much fuller understanding of what is under way is needed. But we believe the broad outline can now clearly be seen. There is a basic change of attitude developing, as the public -- boards and recipients -- comes to feel that the product of public services is not increasing at a rate commensurate with the rate of increase in costs.

(By 'service' we mean more than just 'personal service'. In education, for example, or day care, facilities as well as staff may be in the contract. We discuss more fully on page 35 the danger that where a service involves a quite unique and expensive capital facility, an agency might be 'locked in' to a particular private supplier.)

- a. The public -- both as a policy body and as recipient of services -- is becoming an increasingly aggressive customer . . . no longer accepting passively what is offered, but insisting vigorously on good quality and reasonable cost.
- * There is a growing sense that government agencies should provide what the recipients of the services feel they need and want. This holds, regardless of the economic or social group involved: It is as typical in the attitude of middle class suburban parents toward their schools as it is, now, in the attitude of the users of the public hospital, or the inmates of a correctional institution, or of Indians subject to the jurisdiction of the Bureau of Indian Affairs.
 - * There is a new effort to focus on results. There is a visible impatience with intentions . . . and with statements of what is to be accomplished . . . and a growing interest in what is, in fact, accomplished. The disposition (evident until fairly recent years) to blame service inadequacies on the failure of legislatures and other policy bodies to fund programs adequately is fading. In the area of health and hospitals, for example, the conviction is now fairly well established that additional funding does not necessarily result in increased quality, or availability, of services. Instead, attention is now focusing on the performance of the delivery system.
 - * There is, as a consequence, a new demand for accountability. This is, as yet, a badly-defined concept. It conceals particularly the question of whose judgment controls: Is the organization delivering services to be accountable directly to its "customers"? Or to the policy bodies representing the public at large? Or to both at once? . . . as, for example, the manufacturers of automobiles are accountable to the governmental standard-setting agencies and to the choices expressed by the customers.
- b. In many important service areas policy bodies increasingly reflect the views of "customers" rather than providers. Little noticed, and not consciously planned or directed, a major change has gradually been taking place in the makeup of elected and appointed policy bodies at various levels -- and in the private sector as well as in the public sector. Essentially, it involves a gradual substitution of lay citizen members for various types of professionals and representatives of particular interests. The essential result is to produce a clearer separation and distinction between the bodies and the individuals that are responsible for setting policy . . . and the bodies and the individuals that are responsible for carrying it out. Specifically:
- * In education . . . the Higher Education Coordinating Commission was remade by the 1971 Minnesota Legislature, which removed from its board officials of the institutions for which the Commission was to set policy, and substituted lay citizen members.
 - * In health . . . the hospital planning agencies in the Twin Cities area, originally established as voluntary associations of the hospitals, and made up heavily of administrators and hospital trustees, have been transformed into a Metropolitan Health Board whose majority is now lay citizens.
 - * In engineering . . . the Minnesota Highway Department is now headed by a Commissioner who is not a professional engineer.
 - * In the social welfare field . . . the Minnesota Department of Welfare is now headed by a Commissioner who is not a professional social worker.

- * In law, medicine and journalism . . . changes of a similar nature appear to be under way. Committees of the legal profession are opening up to lay representation, for the review of such matters as fees and professional responsibility. So, it appears, are committees within the medical profession. And in journalism there has now been created in Minnesota a Press Council with some jurisdiction to review the performance of the printed media.
- * In business . . . one of the current topics of discussion is the role and makeup of the board of directors of corporations, turning around the idea of a reduced influence of management within the board and a larger voice for "professional" directors or citizens representing the public.
- * In government . . . there has been recently a marked strengthening of policy bodies. In county government, the county boards are emerging much more clearly as the policy-making bodies. In state government, reorganizations tend to strengthen the role of the "policy executives." The Minnesota Pollution Control Agency was rebuilt in 1969 by the Legislature, to reduce, if not eliminate, the practice of "designating seats" for particular interests.

This large change appears to stem from two sources:

- * A growing desire to get basic policy issues raised, re-examined and settled in major problem areas. This had simply proved to be very difficult to do where the policy boards were so largely made up of representatives of the interests that would be affected by any change.
- * A desire to accommodate the growing thrust toward citizen participation (in Minnesota, at least) not by forming additional veto groups to struggle with administrators, but, rather, by channeling this increased citizen interest directly into the representative institutions in the governance system.

Other changes have, of course, accompanied this basic change in the makeup of the policy body. The new citizen members, being lay persons, have, of course, had to be supported by substantially increased staff and informational resources: We see, as a result, the rapid expansion of program budgeting and the development of much improved information systems. This has been quite visible, for example, in the improvements made in recent years in the Minnesota Legislature . . . or in the Minneapolis City Council, which has been strengthening itself by separating itself, in part, from its traditional administrative duties.

The response is not yet as clear to another pressure set up by this basic change . . . which is the pressure on our system for the recruitment and training of persons moving into these policy positions in elected and appointed office.

- c. With higher levels of government coming, now, to pay substantially the full cost of services delivered by other levels, the "grant in aid" is, inevitably, taking on more and more the character of a purchase of service. A level of "contract" is implied . . . though the standards and safeguards present generally in purchasing are almost totally absent.

- * The availability of non-property sources of revenue to "higher" levels of government, coupled with the desire to keep the delivery institutions as local as possible, produces year by year larger and larger streams of money flowing from the federal government to the states, and from the states to the local units. There seems every reason to believe this will continue: The federal government, under any administration, appears to prefer to have its objectives carried out through state and local institutions, created anew, if necessary, rather than through extension of federal government organization into the states and localities on the model of the post office.

The expansion of grants-in-aid has been quite dramatic within Minnesota, as between the state and its local units. Aids to elementary and secondary education, for example, tripled between 1962 and 1971: from \$132 million to \$339 million. They will, of course, rise still further in 1972, with the change in policy which will increase the total element of state aid support for education to about 65% of total maintenance costs. Grants to local government for welfare programs have increased from \$53 million in 1962 to \$253 million in 1971. And general grants to local government, for a variety of purposes, increased by 860%: from \$38 million in 1962 to \$327 million in 1971.

In this sense a grant-in-aid program, such as the federal aid highway program, can be seen as a kind of relationship in which the national government, seeking the development of a national road system, prefers not to build the highways itself, but -- for the purpose -- "contracts" with the state for the provision of this service. Similarly, the national government in implementing its low-rent public housing program contracts with state-created local agencies for the construction and management of the properties.

- * There is also beginning to be more explicit contracting for services between and among governmental agencies. Some of this has long been practiced, but has been stimulated by the federal grant programs for urban services. In Minneapolis, for example, the federal government makes a grant to the City of Minneapolis Health Department for the provision of health services in the Pilot City area of north Minneapolis. The Health Department, in turn, contracts with Hennepin County General Hospital actually to set up and run the medical clinic.

d. Non-governmental organizations are now being thought of -- and used as -- parts of the overall system for the delivery of services. Health, education, welfare, transportation and criminal justice . . . all are seen to be mixed, public and private. Public planning is increasingly broadening to include the private side. And public policy is increasingly concerned about the effectiveness of the private side. But in some cases, too, public bodies are contracting with the private service organizations, as programs appear, and expand.

- * This new relationship emerged out of growing public concern about the cost of essential services . . . such as health, housing, education and a broad range of social services. Politicians and policy bodies recognized the need for these to be available and accessible broadly to all income groups . . . and recognized the extent to which rising costs were making them unavailable to lower income groups. There was, however, little enthusiasm for government to take over the ownership of hospitals, clinics, housing construction firms, or private colleges, and to operate them publicly.

There developed again, as a result, another flow of money . . . in this case from government to private organizations. A fairly strong preference was established for "non-profit" private agencies, as recipients of these funds . . . which has stimulated, in recent years, a rapid expansion of the non-profit corporation, particularly in housing and for the provision of a number of social services.

- * This arrangement for (in effect) the purchase of service from private organizations presented real advantages to the governmental policy body. In many cases there existed a fairly large number of potential suppliers -- several hospitals in a major community, for example, or several non-profit housing corporations. Arrangements were fairly simple. Existing private employees could be used; as an alternative to the expansion of government administrative personnel. Because the organizations did not "belong" to the government, criticism for substandard performance was easier . . . and the relationship could be terminated if necessary. Overall, the gain in flexibility was considerable. And public services could be expanded faster.
- * The "purchase of service" concept has been dramatically expanded under the 1967 amendments to the national welfare law. Essentially, these opened up a program of 3:1 federal matching aids for states and counties that would undertake to secure certain social services by contracting with other public or with private suppliers. (The background and implementation of this program is much more fully treated in the discussion section later in this report.) The opportunity in this fashion to quadruple state, local or private dollars going into social services has -- not surprisingly -- produced a rapid expansion of the contracting approach.
- * The arrangement has also made it possible for the governmental bodies to use their grants, or contracts, to restructure these private service systems, where experience indicated this would be necessary to secure the desired results. Two quite different kinds of problems appeared.

Some service systems were unresponsive because they were essentially monopolistic. There is, almost literally, no other agency available to do the job. As a result, the system feels little pressure to change, to innovate, or to respond to complaints or suggestions from its users. This is, as we understand it, the complaint made against the health care system.

Some systems are unresponsive, on the other hand, because the individual units are so many and so small and so independent and so short of capital resources that they do not form a system able to move and adjust and expand their output with sufficient rapidity. This situation characterizes the housing industry, and some human service programs such as day care programs.

6. *The "contracting" arrangement emerging, by its very nature, emphasizes responsiveness and results. It will work, however, only if the policy bodies are able to choose among several potential suppliers, thus to reward agencies that are careful about their costs.*

Our Task Force was convinced that the contract relationship offers the potential for the changes which seem essential . . . precisely because it tends strongly to force a definition of objectives, on the part of the buyer, and of results and performance, on the part of the seller. This can be critically important, as the

policy bodies increasingly set priorities, and struggle to maintain the level of public services in the face of rising costs. But it does not, by itself, give them sufficient ability to restrain the rise of unit costs. Two problems arise:

- a. One is the sole-supplier situation, which confronts the public bodies responsible for a good many service areas. Such an arrangement contains an almost irresistible pressure to expand programs, since operating agencies feel no pressure to restrain their unit costs. Policy bodies will be helpless against these increasing costs if they have no options . . . no other providers to which they could turn if they are dissatisfied by the costs charged by their present supplier.

Essentially this situation now seems to prevail in public education in Minnesota, where the Legislature has now contracted, in effect, to pay substantially the full cost of educating pupils. A law has been passed limiting the rate of increase in property tax levies for schools. But this is not the same as controlling unit costs. And -- because the state has now assumed the basic responsibility for financing education -- a real possibility exists that the local public school districts which organize and provide the service . . . bearing, now, virtually none of the responsibility for raising the funds . . . will accede to all kinds of practices which increase unit costs, simply passing on to the Legislature the larger bill. The Legislature would thus be presented with a dilemma: to reject the higher costs, with the knowledge that this would then reduce the program offered; or to maintain the program and accept the responsibility for increasing its aid and taxes. One way out of this dilemma would, of course, be for the Legislature to take control of the unit costs itself . . . for example, setting, at the state level, all teachers' salaries. If this is not to happen, then it would seem the Legislature will have to find some way to encourage the local school districts themselves to be concerned with increases in their own unit costs. This could happen if, for the first time, a school district whose costs got too far out of line were to find itself confronted with the prospect that service were to be purchased instead from an alternate supplier able to deliver the same program at a lower cost.

It is on precisely this principle, of course, that public bodies do buy buildings and other supplies and "hardware."

- b. The other is the need for new incentives to encourage the supplier -- whether a public or a private organization -- to complete his defined assignment at the lowest possible cost. In the traditional arrangement increases in costs and prices have frequently been accepted as inevitable, with public bodies accepting (even if grudgingly) either the increases in appropriation or the reduction in service level needed to make the budget again balance. This should and can be changed. The basic "contract" should establish a responsibility on the organization delivering the service to complete a defined assignment in a manner satisfactory to the body ordering the service. The service level would be, in other words, set in the terms of the contract. The pressure then falls on the supplier to hold down increases in his unit costs during the term of the contract. (It is not, of course, simply a matter of not losing money: The better the supplier can hold down increases in his costs, without inflation, the more of the contract price he can keep as profit for himself.)

These arrangements are, of course, familiar in present public practices for

the acquisition of buildings and other "hardware." They would be new, and are unfamiliar, in their application to services and other "software." Changes would be needed, as well, if the supplier were to be a public agency, rather than a private commercial organization . . . since the concept of "retaining as profit a portion of the savings from improved utilization of staff or facilities" has little present application to government agencies. (Yet, as our Task Force was asked, "Why not?")

The critical element is, however -- again -- the opportunity for the "purchaser" to switch to another supplier for a better combination of price and "product."

This element does not much exist, in the area of public services. The tendency has been for suppliers of service -- schools, for example -- to be given an exclusive franchise within a defined geographic area. There is even some talk of this principle, now, in health . . . a "public health district" for primary care, in a field where the principle of free choice of vendor has generally prevailed. And in the Minneapolis area consideration is presently being given -- because of the troubles between the Minneapolis and Hennepin County library systems -- to the creation of a single, countywide administrative organization for the delivery of library service.

In some ways we have seen this issue more clearly at the national level, and in the business sector . . . with laws over the past 100 years striving to maintain a competition in products and services. The same issue is present in local public services. Something of the same effort to encourage the appearance of other providers may also be required . . . not only by government, but by such non-profit purchasers as the United Funds, as well.

With software services, as with hardware, all kinds of dangers exist, in a competitive arrangement. It would be an experiment. What is important is to see that the present arrangement is also an experiment, with its own dangers, and that our long-cherished idea of a responsive public monopoly may well be one of the dreams of reason.

It is essential to recognize that this challenge to improve the utilization of public dollars falls not only on governmental agencies but also on the private agencies operating on a "non-profit" basis. In some ways it falls more heavily on these nonprofits, since they are inevitably less subject to the financial control systems and to the political oversight on costs, and on results, than are governmental agencies.

The term "non-profit" is an unsatisfactory one, which does not well express the central distinction we are trying to make. This is the distinction between organizations (governmental and non-governmental) that are under real incentives to control their costs, as opposed to those that are not.

7. *This emerging situation represents another opportunity for Minnesota, perceiving basic trends and changes, to act decisively to move ahead of the rest of the country.*

In recent years, particularly, this state has been extremely innovative in the development of ways to make public institutions responsive to citizen concerns . . . to take control of the physical problems of urban development in the Twin Cities metropolitan area . . . and, most recently, to undertake a thorough-going revision of the local government fiscal system which has brought national attention. These innovations bring not only the benefits that come directly with the

reforms . . . but bring a secondary benefit as well: Frequently, the demonstrations undertaken here attract substantial federal or national foundation financing . . . as the delivery of higher education services, and for experiments in the organization of elementary and secondary education.

- a. This will require an organized, planned, directed "research and development" program in methods of delivering "software" services. Experiments will be needed in the development of contracts . . . in the measurement of objectives . . . in the construction of new compensation systems carrying incentives both for organizations and for individuals . . . and in the process of negotiation or competition through which a choice is made among alternative suppliers.
 - b. This cannot happen without the affirmative support of government -- particularly of state government -- and particularly of the Legislature. We are, after all, talking about public services, for which government is responsible. State government is coming, more than ever before, to play a central role in the shaping of the overall system. And the Legislature is, ultimately, the "buyer" that puts up the money.
8. *Significant accomplishment is likely to depend on the appearance of a strong initiative from the private sector, and from business organizations in particular.*

Clearly, the cooperation of both the government and the private sector is essential for the new kind of partnership arrangement for service delivery which we envision. Rethinking, replanning, reorganizing will be necessary on both sides. A separate question arises, however, about the manner in which this new arrangement is started. We are convinced that the soundest and most productive approach would be for the change to arise first within the private sector, perhaps in response to a specific request from government.

- a. It is not inconceivable that the initiative in developing the proposal could come from public agencies presently delivering services as public bureaus. We do not, however, regard this as likely.

We stress again: The essential characteristic of the "new model" delivery mechanism we envision is not that it is non-governmental, rather than governmental, but rather that it focuses on objectives, and on results, and is subject to incentives to be conscious of its costs. There are, presently, some public and governmental agencies operating on this basis . . . public agencies selling electricity to public and private consumers on contract, for example. And it is possible that the administrative staff of a school might want to propose a new, single contract with the school board for the performance of educational services . . . or that the administrative staff of a municipality might contract with the village council for the management of the community. Our Task Force talked, in fact, with a school principal and a village manager who suggested precisely these things. It seems to us, however, that these cases must be considered exceptional, and that -- as a general rule -- the traditional public service agencies are not the places from which this new relationship is most likely to be proposed.

- b. The delivery of services on a results-oriented, fixed-price basis is more logical for organizations that are presently operating in a "market" situation. Organizations, given time and interest, can change the field in which

they operate. What is harder is to change the method in which they operate. We believe it would be particularly difficult for non-profit organizations to undertake the type of cost-conscious contracting which needs to be developed. We should look, rather toward organizations that have been operating in a competitive environment. Business firms of this sort possess a number of characteristics useful and important to any public policy body seeking a new arrangement for delivering services at lower unit cost. (For a fuller discussion of these points, see page 28.) Typically, such firms:

- * Are accustomed to be measured by results -- whether defined in terms of volume of activity, or margin of revenue over cost.
 - * Possess fully developed systems for the measurement and control of costs.
 - * Operate with incentives -- compensation systems providing motivation to the organization as a whole to perform.
 - * Are accustomed to accepting the possibility of loss or failure in return for the opportunity to earn larger rewards.
 - * Understand the importance of change and innovation, and a willingness to undertake ventures in the search for new ways to deliver products or services at lower cost.
 - * Understand the importance of, and are skilled in, marketing and promotion, and in market surveys and consumer research.
 - * Listen and respond to the preferences of consumers in situations where other providers are offering competing and different products.
 - * Have access to the capital resources needed to expand operations and service as demand rises.
- c. The need is to challenge business to see that entry into this field of public services is in its interest, as well as within its capabilities.

Probably it is fair to say business is not, at this point, oriented in this direction.

- * While business is increasingly thinking and talking about its role in the solution of social and urban problems, the response stops short of what we think is essential. Firms are sensitive to the concept of "social responsibility" in terms of conducting their present activities with greater awareness of their impact on the physical and social environment . . . and in terms of the opportunity to contribute both money and time of individuals from their organizations to community enterprises -- governmental or non-governmental. We do not find a significant awareness of the desirability or possibility of entering the field of public or community services with their organizations as organizations. This is what is needed.
- * Such a venture . . . formally to offer to carry out a defined public mission successfully in return for a defined dollar payment . . . would represent a new and risky undertaking. The field of activity may be unfamiliar. There will be heightened exposure to community controversy. And profitability is by no means assured.

Nevertheless, we believe compelling reasons exist for business to investigate, and to enter, this field of service delivery.

- * Services in general . . . and services in which government is a purchaser, in particular . . . are, surely, a major growth sector in the economy. A firm committed to careful thinking about its future can ill afford to ignore this trend.
 - * Differences between the area of public services and traditional areas of commercial activity are likely to narrow in the future, as public controls and requirements continue to expand . . . as they have recently, with respect to the production of automobiles, the production and transportation of petroleum, the production and marketing of consumer durables, and the processing of food.
 - * The potential for profit is likely to be real, and realizable. Government buys and business sells buildings, vehicles, machinery, equipment and supplies on a for-profit, and profitable, basis. There seems little reason to believe that the same relationship cannot develop with respect to services, if cost and performance can be defined.
 - * A case for entry exists, even where the prospect for profitability seems likely to run below the rate that could be achieved in present or other prospective commercial lines of activity . . . even if a venture should need to be conducted for a time on a zero-return basis. A firm could appropriately, we believe, treat the margin of profit foregone as essentially its contribution to a public or community cause.
 - * There may be other-than-monetary considerations that would adequately justify entry. Certainly, private organizations, in their capacity as taxpayer, have a general interest in the more effective and efficient provision of public services . . . and in maintaining, generally, the scope and vigor of the private sector itself.
9. *The change to a more "explicit" contracting will not require the replacement of the present system: What is required is simply a stimulus to the present system.*

The change we are suggesting will be evolutionary, even to the degree it becomes successful. And it may never involve more than a part of the total system for the delivery of services. Nevertheless, it is a critically needed experiment, and it needs to begin now. As the change gets started, it will be helpful to keep a few key principles in mind:

- a. All the various service areas must be open for re-examination. Just as we would not foreclose the idea of governmental bodies beginning to deliver service in areas where the providers are now primarily private, so we believe the opportunity for contracting and for the entry of new providers must occur also in areas in which the delivery system is now primarily governmental. Hennepin County has, for example, over the last ten years basically reappraised the desirability of retaining -- and, in fact, rebuilding -- a public hospital/clinic, in a field which, of course, is primarily private . . . and has determined that, in this sense, a "mixed" system will be retained.
- b. The crucial "mix" however is not that of public and private, but that of organizations on appropriation and those on fixed-price contracts. In this

sense, too, the health field appears to be changing, as a basic reappraisal is made of the hospital and medical institutions which have not been subject to the discipline of limited resources. ("In no other realm of economic life," a leading authority wrote a few years ago, "is repayment guaranteed for costs that are neither regulated by public authority, nor controlled by competition, and in which no incentive for economy can be discerned.") This is a good example of the basic point we make: It does not appear to be contemplated that the so-called "health maintenance organizations" now being developed to contract with the recipients of health care services on a price-conscious and results-oriented basis will come to replace totally the present fee-for-service system. The idea is that these will supplement the present system . . . will provide a choice . . . and will provide a stimulus to the remainder (which may continue to represent the majority) of the system.

- c. It is important to move with real dispatch. Where change comes slowly, it must be started early. While we wait, the rise of costs in public services continues, inexorably. The purchase-of-service program needs to be put in order before the increasingly large sums of dollars become involved in some serious challenge: It is essential to understand that what is under way, essentially, in this program is the spending of larger and larger sums of public money to purchase services, usually either without negotiation or competitive bidding among suppliers, with few of any cost controls, and with little ability to determine what is, in the end, delivered in return for the dollars expended.
- d. The effort must be regarded as an experiment. It is probably impossible to know for certain, at this point, that the extension of the use of the contracting arrangement will, in fact, produce the results we hope for. It is, however, worth trying . . . because it is the essence of the contract arrangement that the buyer must set forth clearly his objectives; and the seller must define what is being furnished in return for the dollars paid. It therefore addresses what have seemed to us to be two of the critical problems in the delivery of public services in this state and this point in time: The need for clearer statements of objectives and priorities, and some real measurement of the results achieved. So it is worth trying. More than this: Many different things are worth trying, since no one knows what will, in fact, succeed. The experiments must be broad in scope. And they must persist over a reasonable period of years.
- e. The effort to control costs, while important, must not obscure the central objective . . . which is to maintain and improve services and to make the service delivery organizations more responsive to the needs of the people being served. The freeing up of financial resources, which we believe will result, is, of course, a means to an end: The effort to enlarge the range of organizations interested in supplying services to policy bodies, while it should result in better utilization and lower cost, will provide at the same time a larger range of choices to the recipients of services. For various reasons, the range of choices may not be as broad in some service areas as it is, for example, in health care -- where the "free choice of vendor" policy has dominated, almost from the beginning of the public health insurance programs. Even a limited opportunity to choose . . . to "switch" between organizations can have important consequences, however: Public officials, like businessmen, watch trends in public preferences closely, and frequently make significant adjustments as a result of even fairly small percentage shifts. The direct correlation between the opportunity for

meaningful choices, and the responsiveness of the organizations offering services, is central.

This extension of the "choice" principle cannot, of course, be the only control on the quality of the services delivered: No one believes that the choices made by well-informed consumers among competing airlines, for example, are, by themselves, enough to insure a sufficiently high quality of aircraft maintenance and safety. Yet this element of customer choice among competing airlines is a part of the "accountability" mechanism which visibly determines -- and improves -- their performance.

- f. The primary need is for the two methods of service delivery continuously to be tested against each other. A system of contracting with organizations (governmental and non-governmental) that are under clear and strong incentives to minimize their costs can -- if unrestrained -- serve the public interest as badly in certain situations as a system of bureaus or non-profit agencies (governmental or non-governmental) unrestrained by any accountability for costs and results. Neither should be used to the exclusion of the other. In state government, as in (for example) federal procurement in recent years . . . the general public interest lies in keeping alive at all times the options to switch from one system to the other. Even the possibility of a change can work powerfully to keep a "delivery" organization responsive to the objectives of its client. The overriding need at this time is to introduce precisely this effective system of check-and-balance into the large and rapidly expanding field of human and social services.

RECOMMENDATIONS

A hypothesis

What we have presented here is an idea. It is a complex idea, both in concept and in application. But it is an important idea. We believe it must be discussed. And -- wherever possible, and as soon as possible -- it must be tried.

Our essential recommendation, therefore, is that the community now begin the broadest possible discussion of what has been presented here. We hope the idea will be discussed within government. We hope it will be discussed within those groups that represent the consumers of public services. And, particularly, we hope it will be discussed by leaders in the business community.

As this discussion begins, it will be important to recognize that our analysis has distinguished two somewhat different situations, with different implications for the action that might be taken, by government or by business.

- * First, there are those areas of community concern in which government agencies presently carry the primary responsibility for the performance of service. It is in this situation that the principal opportunity exists for the use of "contracting" to enlarge the diversity of choice offered to the public and to increase accountability to the bodies that make public policy decisions.
- * Second, there are those areas of community concern in which services are performed primarily by private and frequently non-profit organizations . . . or in which no organization, public or private, has assumed responsibility for their performance at all. In this situation the opportunity is for some competent organization simply to move, on its own initiative, to undertake the service that needs to be performed, or to be better performed.

Once again: What we propose is the testing of a hypothesis . . . an experiment. Our case is not that the idea we have described will work, but that it should be tried.

* * * * *

Our proposal . . . our challenge . . . to the Twin Cities community can therefore be stated quite simple:

- 1) *We urge the major governmental and business institutions to organize themselves, during the fall of 1972, to undertake an examination of the idea advanced in this report as it might be applied in a series of current problem areas.*
- a) By "government" we mean the principal policy institutions -- both on the legislative and on the executive side -- at the state and county level, and perhaps also at the municipal level in certain of the larger municipalities.

In other words: the buyers of services . . . the bodies that make the decisions whether a service is to be provided; when; in what quantity; and for whom.

- b) By "business" we mean -- as a practical matter -- the firms that have their headquarters, and therefore their primary social commitment, in and to Minnesota and the Twin Cities metropolitan area.

In other words: the providers of services . . . the organizations able and willing to undertake a defined assignment for a fixed sum of money, and for a minimum return, if any; and to maintain that commitment for a significant period of time.

We would not exclude from this definition non-profit private organizations . . . or even a unit of an existing public agency (the staff of a school, for example, or of a correctional institution) that might want to enter into a contracting relationship with its appropriate policy body.

- c) In our reference to "current problem areas" we suggest the following for specific and detailed study:

- * Day care -- Could measurable objectives be developed for this service, and parties compensated according to results? Should this be shaped specifically around the operation of centers? Or as family day care, offered in private homes?
- * Nursing homes -- Can this service be reshaped, from simple custody, into a program in which some party takes broader responsibility for the various (physical, social, recreational) needs of the elderly, and in which dis-incentives exist for simple bed care?
- * Education -- School boards in several cities are now beginning to contract with various kinds of organizations -- including proprietary organizations -- for the delivery of educational services. Sometimes (as in Gary, Indiana) this involves whole schools, sometimes it involves specialized programs within a school, or within a district. Might not this be tried in the Twin Cities area, too . . . either by contracting with a non-school organization, or through the device of a new, results-oriented contract signed between the school board and an existing administrative and teaching staff at a school? Why could not the state's new Council on Quality Education solicit such a proposal from some innovative school district in Minnesota?
- * Legal services -- Could organizations be formed to undertake responsibility for providing legal services to low-income areas?
- * Social services -- Could the programs which now provide home care, "chore" services, recreation services, etc., to the elderly or non-elderly low-income population, be handled by contract, with results identified and accountability enforced partly by the choice of the recipients of the services? Is it possible that a number of these individual social services could be "packed together" and put on a geographic basis, to be delivered by a single organization under contract with the community council of a particular low-income neighborhood?

- * Corrections facilities -- Could objectives be set in such a way that the operation of these institutions, at the state or community level, could be undertaken by some party on a contract basis?
- * Rehabilitation of offenders -- Could the expense incurred by the state in the incarceration of offenders be treated as an insurance proposition, with some party undertaking, in return for a defined payment, to take responsibility for the rehabilitation of an offender and to compensate the state for the costs if a second offense should occur?
- * Manpower -- Could the public purchase, and could some party take responsibility for providing, an integrated service that would involve identifying the unemployed, determining their skills, retraining, job placement, and on-the-job counseling?
- * Transit marketing -- Could the parties providing transit service be given responsibility not simply for running vehicles but also for increasing patronage . . . and compensated according to results?
- * Housing management -- Could houses in a neighborhood, like the units in an apartment building, be put under a kind of organized management, responsible for overall maintenance and central services?
- * Land assembly -- Citizens League studies suggest it would be desirable if the rebuilding of the 80-year-old areas around the central cores took place in units of somewhat larger size. This requires the assembly of land parcels. Government cannot easily do this itself, with public authority and public funds. Could some party provide this service of land assembly . . . or, at a minimum, pre-assembly, leaving "hold-out" parcels the responsibility of government?
- * Solid waste -- Could new incentives be developed, to which private parties would respond for the recycling, rather than simply the "disposal", of solid wastes? Should the present arrangements for collection be reviewed so that--while maintaining its combined features for garbage and refuse--incentives are retained for maximum efficiency in service? Is it conceivable that the public agencies responsible for ensuring proper disposal simply contract with private parties for this job -- leaving to the latter the decision about how best to handle the disposal?
- * Under-utilized housing -- The creation of additional housing not through the construction of new buildings but, rather, by bringing onto the market units now existing but under-utilized within the present housing stock. The program should be aimed primarily, but by no means exclusively, at families of low and moderate income. It will in some cases, but not in all, involve a physical rehabilitation of the 'turnover' housing units.
- * The Minnesota Zoo -- The development and operation of the presently-authorized state zoological garden . . . on the site provided by the Minnesota Zoo Board, and in line with the plan of the board, but privately financed from reasonable charges to the public.

- * Neighborhood clinics -- The early establishment of primary care centers for health services, particularly in the less-well-served inner-city residential areas of Minneapolis and St. Paul.
- * De-toxification centers -- The development and operation of the services required by 1971 state legislation re-defining drunkenness as an illness. This would include the provision both of facilities and of staff . . . both for the short-term 'holding' and for the long term rehabilitation of inebriates.

- d) We envision, as an outcome of the several studies, a set of 'requests for proposals' by the public bodies covering program areas in which contracting appears both feasible and desirable; and a set of 'proposals' by business firms or other potential providers for services they believe could, and should, be provided by contract.

We believe studies in some areas could be completed, and action proposals presented, before the end of the current year. Others should result in tentative conclusions, at least, by July 1973.

2) *The Board of Directors of the Citizens League should:*

- a) Program for study in 1972-73 several additional issue areas in which the implementation of governmental policy might feasibly occur through the kind of results-oriented contracting described in this report. A particularly high priority should be given to a review of the state plan for the provision of social services under the Social Security Act, and the practice that has developed in the counties in the Twin Cities area: the purchase of service, the kinds of providers eligible for contracting, the nature of "local matching" contributions, etc.
- b) Establish a special task force, composed in part of members of the Policy Planning Task Force, to stimulate interested business firms and public officials to pursue the discussion of the concept presented.

DISCUSSION OF RECOMMENDATIONS

1. *Who would you really expect to respond to your proposal . . . and why?*

Certainly, it will not appeal to different individuals, or different organizations, for the same reasons. But we don't think that matters. The striking thing -- as we've thought about it -- is the variety of different parties to whom the concept of contracting does present some appealing aspect.

We think it will be attractive, for example, to:

- * A good public administrator . . . who is committed to public services, and to quality public services, and who wants to see programs expand . . . but who is concerned about the ability to draw resources from the public, given the present weakening of confidence in the responsiveness and the effectiveness and efficiency of governmental programs.
- * The businessman . . . concerned about the political and social health of his community, and wanting to make a contribution toward the easing of problems . . . but uncertain that his present contributions and effort are making maximum impact on problems that are really fundamental. Or a businessman simply concerned, in his capacity as taxpayer, about the cost and effectiveness of government.
- * The leader of an inner-city action group . . . concerned to make institutions -- governmental and private -- more responsive to the persons they serve . . . and who recognizes the concept of "alternatives" and "choices" as central to a strategy of increasing this responsiveness.
- * A public employee . . . who believes in the effectiveness of his organization, who resents criticism of its performance, and who is looking for an opportunity, and a way, to demonstrate what it is producing. A public employee, too, who would like a freer hand in experimenting with new ways of doing things. An employee attracted by the idea that he and his organization might benefit directly from the economies and efficiencies that could result from changes they might introduce.
- * An elected official . . . under pressure from his constituents and taxpayers to expand and improve services and -- at the same time -- to hold down taxes and spending.
- * A parent . . . anxious for evidence of what is, in fact, being accomplished in the schools, and wondering whether what might be accomplished by the other method of teaching and learning now being suggested.
- * A citizen . . . concerned about the rate of change, and the new problems facing the community, and anxious about the need to adjust priorities in public programs and in public spending . . . and frustrated by the slowness with which the existing system responds.

2. *Is contracting really feasible when we're talking about public services? Doesn't contracting depend on the ability to measure very precisely what is being bought, and delivered?*

We found it important to make a distinction between the concept of "contracting" in general and the concept of "performance contracting" in particular.

If the question . . . or our proposal . . . involved performance contracting, specifically, our answer to the question would be "yes." Performance contracting, as we understand it, does involve -- or attempt -- a precise measurement of what is to be purchased by the public body, and what is to be provided by the contractor. And we are -- from our discussions -- familiar with the problems raised as this requirement for measurement and quantification is introduced into such service areas as education, health or social services.

Yet -- as we thought about it -- it seemed fairly clear that contracting is possible without precise measurement. As a matter of practical fact, it goes on now . . . in government, and in the affairs of all kinds of private organizations and private individuals. Government, for example, contracts for such professional services as architecture, engineering, financial advice, design, and legal services. Some governmental units contract for maintenance service in their buildings. Some contract for protection services. Most contract for insurance services. In all these, it is probably impossible to specify on a performance basis what is to be accomplished . . . and it is impossible for the contractor, on the other side, to quantify what has been delivered, and accomplished, when it comes time for the compensation to be paid. Nevertheless, specifications are written, and proposals or bids are offered, and contracts are negotiated and signed. And, from year to year, the policy bodies purchasing services occasionally decide to move from one supplier to another . . . and make these decisions on a reasonable basis even without what an expert would regard as "hard data." And in the experience of any individual, we felt, it is not necessary to be able to evaluate automobiles as they would be evaluated, say, by the Society of Automotive Engineers, in order for a person to make a reasonable decision to move his purchase this year from one automobile dealer to another.

What this suggests, of course, is that the key to the assessment and evaluation . . . the "inspection of the work", if you will, needed in contracting. . . may not be the ability to generate hard data. Rather, the key may be the development of new and better ways to "measure" the service in terms of the way the people who have been receiving it . . . the customers . . . feel about it.

3. *Your whole idea . . . about contracting introducing incentives on suppliers to work down costs . . . seems to presume that there are, in fact, economies that can be made, in the major service areas.*

That's correct: it does. This conclusion of ours rests on the findings in a series of recent reports by the Citizens League . . . which suggest that in most of our major public systems substantial "capacity" exists for the improved utilization of staff or facilities: enough, in many cases, to permit a maintenance or reduction in program costs, even in the face of rising prices for materials and rising salaries for personnel. Summarizing briefly:

- * A report in 1969 underlined the potential in year-round use of school buildings. Subsequently, school districts, such as the one in Mora, Minnesota -- faced with rising enrollments and limited resources -- have moved to year-round use of schools, thereby avoiding additional bond issues and taxes.
- * In 1971 a report on school buildings in St. Paul pointed to the existence of unutilized space for classes -- either in existing public buildings, in exist-

ing parochial schools, or in existing commercial buildings which might be adapted to educational purposes. More recently, the State Commissioner of Education (followed by a survey in the St. Paul newspapers) highlighted this pattern generally around the early postwar suburbs of the Twin Cities area: significant numbers of empty classrooms in some school districts, at a time when some schools are over capacity in adjoining districts.

- * The same 1969 report on schools suggested the possibility of improved utilization of school staff . . . by differentiating personnel assignments in such a way that professional salaries were paid only to persons doing professional work, and para-professional jobs were filled by persons with less than professional training and paid at comparable lower rates.
- * In an examination of the area's transportation system in 1971, a League committee concluded that the pressure for the construction of additional highway facilities results essentially from the concentration of trips at the peak hours. Our highways are filled to capacity only about 20 hours a week . . . and then, by vehicles each of which is typically filled only to about one-quarter of its capacity. Essentially the same situation has recently been underscored with respect to discussions about the airport . . . with suggestions that runways are, similarly, filled to capacity only part of the day, and then with planes operating on the average at 60% or less of seat capacity. In general, considerable potential seems to exist for deferring major capital investments by measures to spread the use of these expensive facilities more uniformly throughout the day, throughout the week, or throughout the year.
- * The League's second study on housing concluded tentatively that the Twin Cities area has, not so much a problem of housing shortage, as a problem of misallocation, between units and families. The crowding that exists is matched by the "under-crowding" now of large numbers of multi-bedroom houses occupied by single individuals and couples. The report suggested the urgent need for a study of ways to encourage a turnover of the housing stock so that this existing, expensive capacity was increasingly released for the use of families with children now needing larger quarters.
- * The 1970 report on health care noted that utilization was a dominant theme in discussions about the problems of the health care system. Utilization programs have, in fact, been installed in many -- if not most -- hospitals . . . in an effort to reduce the length of stay, as an alternative to the construction of additional beds. More recently, in 1971, legislation was passed permitting the Metropolitan Health Board to control the expansion of the bed supply, as an effort to force attempts by doctors and hospitals to reduce the length of stay. Under pressure of costs, too, hospitals began, years ago, to differentiate the assignment of personnel . . . gradually passing non-professional duties from doctors to nurses, and from nurses to LPNs and nurses' aides, in an effort to make the best use of expensive -- and scarce -- professional time.

The League has not been alone in pointing out potential for better use of dollars through differentiated staffing, multiple use of facilities, and the spreading out of peak demand. Little has been done, however . . . largely because so little motivation and incentive presently exist for governmental agencies and such non-profit organizations as schools and hospitals to make these changes. An effort is now under way, locally and in federal legislation, to introduce

these incentives into the health system, for example, through the development of prepaid group practice, or "health maintenance organizations." But these changes have been largely frustrated in housing by a set of tax incentives which make it easier for the owners of large and expensive housing to continue to occupy their under-utilized properties. And the transportation system (the highway/auto system, at least) is still so largely financed by general tax revenues, and each use of the highway is so totally unrelated to any costs incurred, that the driver feels virtually no incentive to make full use of his vehicle or to make better use of the roadways. (The contrast between the road system and other utility systems is interesting: Such commercial utilities as power and telephone have established pricing systems to encourage off-peak use of facilities.) Public transit represents, of course, a utilization program, essentially, that is only now really being developed.

4. *Do you see these new "provider" organizations being for-profit . . . or non-profit . . . or what?*

This may sound a little strange . . . but -- essentially -- it doesn't make any difference. As our report indicates, the essential thing is that the provider organization undertake to carry out its job on a fixed-price contract. This contract may contain a profit . . . or no profit . . . or some profit . . ., which is a less-than-normal profit. The key thing -- again -- is the incentive set up by the fixed-price arrangement . . . so that rising prices of materials and personnel will play out into improved utilization and staff facilities, rather than -- as too frequently at present -- into either increased appropriations or reduction in the level of service provided. This is why, in our view, the central distinction in our analysis is not the distinction between "governmental" and "non-governmental" or between "public" and "private."

Whether a contract provides for a profit or not will depend very largely on the motives of the supplier offering to do the work. It is not inconceivable that some business firm in the Twin Cities area, for example, might offer to carry out an assignment on a no-profit basis. Businessmen have been known, before, to get something for a valued customer "at cost." And dollars lost in a profit foregone may come out essentially to the same thing as dollars contributed directly from the business's treasury for some civic cause. On the other hand, the opportunity to share directly in any savings or efficiencies that result might well be important -- and worth while, from the public point of view -- in motivating the supplier to perform on his contract. It is this, of course, that is missing when services are delivered by "bureaus" -- administrative staffs funded by an appropriation rather than by income earned from the work they do. However intelligent, well-trained and highly-motivated the people involved, the system by which the bureaus work lacks, we believe, a certain important incentive to respond to the needs for service with real dispatch. It is, in a sense, unfair to select out one example . . . but perhaps it is worth mentioning as a case in point the effort by the old Metropolitan Planning Commission beginning about 1962 to draw a comprehensive plan for the Forest Lake district. This is the kind of job done routinely by commercial planning firms on contract to municipalities and other agencies. The MPC plan was still uncompleted when the agency went out of existence in 1967. It was finally finished by the successor Metropolitan Council about 1968.

It is important to try to state quite carefully our feelings about the potential of non-profit private agencies as contractors in the kind of relationship we envision. There is a very real issue here, because of the drift of (especially

federal) policy toward the use . . . indeed, in some areas, the exclusive use . . . of non-profit vehicles for the delivery of social services. One of the characteristics of some of the new federal programs is that they contain clear restrictions against profit-making, or potentially profit-making, providers, thereby virtually requiring the use of non-profit mechanisms.

It is difficult to express a reluctance to see non-profit organizations emerge as, increasingly, the deliverers of these social services. They are doing important work. They are staffed in most cases with highly-motivated people . . . who are, in many cases, substantially underpaid. And they not uncommonly work in substandard quarters. Knowing, as we do, the way they scrape along from year to year for financial support it is hard to suggest that they are anything but careful and economical agencies in carrying out their program. It is much easier, and much more defensible, to argue their limitations in terms of their difficulties -- given their lack of resources -- in moving as rapidly as may be needed to acquire the facilities and the staff to expand programs as the demand for service grows. But we cannot, nevertheless, conceal some reluctance to see a continuation of the exclusive preference for the non-profit organization as the vehicle for the delivery of services. Being also a "bureau", funded by an annual appropriation, the non-profit agency suffers from the same essential limitations as the governmental agency. And some very real questions about their effectiveness and economy could arise if they should ever begin to be more fully funded. This is, of course, what did happen with hospitals . . . non-profit agencies, which were once as severely constrained in their own budget as most private social service agencies still are, in theirs, today. . . which some years ago, with the arrival of health insurance, began to be much better funded and rapidly developed into one of the really serious cost-control problems in the whole health/education/welfare area. It is not inconceivable that other services may someday begin to be funded in a comparable manner, producing comparable problems. Indeed, just this does now appear to be happening as the new federal programs that began in 1967 result in the gradual shift of non-profit organizations off their traditionally exclusive dependence on limited private funding, and onto a growing base of public and federal financing.

(It is also important to watch carefully the definition of "non-profit". It presumably refers to an organization in which some amount of earnings remains as surplus after the payment of expenses within a given period of time. . . a surplus which is then paid over to the owners of the enterprise. There are, however, organizations set up as non-profits which also complete their year with a surplus of revenues over expenditures. . . but which qualify as "non-profits" simply because they have no owners. They simply pay out the surplus in compensation to the members of their staff . . . or in perquisites, or in improvements to facilities. By contrast, of course, organizations set up nominally as "for-profit" organizations can, in fact, end their year -- by accident or by design -- with no excess of revenues over expenditures. Under the definitions appearing in federal law and regulations, the former could qualify to take on some of the new social service or housing responsibilities, while the latter could not. This seems to us to make no sense.)

Our Task Force also found in its discussions with resource persons some feeling (and this may perhaps be the source of some of the restrictions that favor non-profit organizations) that in these social service areas it is improper for the providers to be even potentially profit-making. And it is true, certainly, that many of these services do have their origin in charitable impulses and charitable institutions, such as churches and welfare societies. Yet the fact is that such

basic human necessities as food, shelter and clothing are provided almost exclusively by for-profit organizations, and the medical care system is clearly not a non-profit enterprise. It may be that this pattern of restrictions, dating back to some unknown origin, has simply been carried forward inadvertently from one program to another. This has become the pattern in federal housing legislation . . . even though, quite demonstrably, now the result is to concentrate federal aids in church-sponsored and other non-profit housing corporations, newly created, which are, in many respects, the least able to undertake the complex business of housing project development, and whose good intentions prove no substitute for the technical skills and experience required.

We seek a new vehicle . . . with some characteristics of the traditional non-profits' commitment to service . . . and with some limitation on profit . . . yet with something, too, of the pressures imposed on organizations in the marketplace to secure their revenues by demonstrating their ability to complete an assignment on time and within budget. Put another way: While the community continues to use its governmental agencies and its existing non-profit organizations, cannot it also try to take its strong and well-managed commercial organizations and draw them into the critical public problem areas?

5. *There have been a number of references to these new programs of federal aid for social services. Is it possible to explain a little more clearly what these are, and how they originated, and how they are operating currently?*

We have found this whole program extraordinarily little known, even by legislators in Minnesota, and certainly by the general public. Its essentials, as we understand them, are as follows:

It has its origins in a growing concern during the 1960s about the increase in welfare rolls, particularly in major cities around the country . . . and in the steadily rising federal obligation for the financing of public assistance. It appeared that the public response was simply to fund the rising welfare case load . . . and to do very little about the essential causes.

In 1967, as a result, a number of amendments were made to the basic Social Security Act, intended to stimulate localities around the country to provide the kind of services to needy families that -- it was hoped -- might provide the kind of support that would permit them to continue, or to develop, as stable working families and to prevent their dependence on public assistance. In concept, it is not fundamentally unlike what has been appearing in health care . . . and where, similarly, the interest now is moving away from expenditures for the treatment of people who become ill and toward programs to maintain the health of individuals and families. A broad range of social services was identified for which federal aid would be provided. These included: day care services for the children of working mothers, a variety of counseling services, legal services, house-keeping services, recreational programs for children, foster homes, information and referral services, and others.

These new social services were to be made available to the aged, blind, or disabled, and to families and children that either had been, were at present, or (because of their income levels) potentially might be public assistance recipients. The county was to be the operating unit, as it is for the distribution of welfare assistance, and counties were basically given their choice whether to provide these services through some governmental agency or through the purchase of the service from a private provider -- which, in turn, might be either pro-

prietary or non-profit. The matching ratio was extremely attractive: three federal dollars for one local dollar . . . and the local dollar might be put up in the form either of a county tax dollar or in the form of a dollar donated to the county to spend on social services.

A blind Korean social service expert then working for the legislature in California is generally credited with first having come to understand the potential offered for a state by this new arrangement. Basically, it permitted a quadrupling of the program levels -- at essentially no cost to the state, since in some cases existing expenditures were allowable as the one-quarter "local match." In California, and subsequently in other states, an effort then began to identify the number of eligible persons receiving services covered by the program . . . and to offer these expenditures as the local match for the corresponding three dollars of federal assistance. This proved particularly attractive to voluntary private social agencies, whose budgets -- financed entirely by charitable contributions -- were coming under increasing pressure. What developed in practice was a marginally legal arrangement in which the dollars then being spent for service to eligible persons in particular voluntary social programs were donated to the county government. The county government matched these dollars with the three-for-one federal aid, and then contracted that with the social service agency for -- obviously -- a much expanded program of service. In this way -- in the Twin Cities, as elsewhere -- a significant amount of the program activity conducted through the United Fund agencies has been shifted essentially to a base of federal financing -- and, of course, expanded in the process.

The whole program has, not surprisingly, become in recent months a subject of major controversy. Not anticipating the aggressive state response, the drafters of the 1967 amendments set up the federal matching share as an essentially open-ended appropriation . . . with the Department of Health, Education and Welfare required to fund on the three-for-one basis all matching applications submitted to it. A long article in the June 17, 1972 National Journal describes vividly the desperate efforts of HEW officials to bring this mushrooming program under some kind of overall fiscal control. But the total drain on the federal treasury is not the only source of controversy. The Department also received early in 1972 a report from Booz-Allen-Hamilton, which it had commissioned, warning of the abuses that were possible under this purchase-of-service program, since contracts were typically let for service by the counties with no competitive bidding or negotiation among various suppliers, and with little, if any, effort to determine what was, in fact, provided for the money expended.

The whole program tends, therefore, to be perceived -- both by the administration and by the states -- as a kind of "backdoor revenue-sharing." The social work profession has a particular interest in it, in addition, and in its continuance, since public assistance appears likely in the near future to be converted from its present form into a program of cash payments to welfare recipients, delivered by the postman rather than by the "caseworker," who has, traditionally, provided counseling and other services to welfare families along with financial aid.

We believe it is extremely important to see in this, also, what was stressed by the Booz-Allen-Hamilton report: that is, the potential, as purchase-of-service opens the way for the entry of relatively large-scale, sophisticated, well-managed, well-capitalized organizations into the delivery of services traditionally provided by governmental or small-scale and much less well-managed private, non-profit organizations.

As of mid-September 1972 it appears that the Congress will "close the end" on this program . . . so that the federal government will no longer automatically fund every application for purchase-of-service funding, in every state. But this limitation on the growth of the dollar size of the program will not end the program. And it may not even limit its growth, over the longer term. Minnesota, if it keeps its present allocation of dollars, will continue to be a substantial purchaser of social services, and we can expect to continue to see pressures mount for improvements in the method of securing suppliers, and in the method of evaluating the success of the programs carried out.

6. *Is it possible to be a little more specific -- even with respect to just a few of the items in your list of possible areas in which the contracting concept might be applied?*

Perhaps this will help.

The Zoo. Five years after the Citizens League report crystallized community consensus on the desirability for a first-rate zoo, no development has as yet been started. A state zoo board has been created and a site has been designated. But problems exist with the financing. And, even after -- and if -- financing is provided, development is likely to be slow for a new agency created solely for the purpose of establishing a zoo, all of whose expertise has to be assembled anew for the project. And the prospect for financing remains uncertain, given the growing competition of other -- and in some senses more urgent -- programs.

The League noted in 1967 that zoos are a substantial "consumer" industry. It noted the "hard competition" for local tax funds. It suggested that the investment in a first-rate zoo can be, to a large extent, self-liquidating. It proposed that the new zoo in the Twin Cities area be developed and operated by a private agency, under the supervision of a public body. And it contemplated user charges to fund a significant part of the cost . . . noting that, even at the rates normally charged, a zoo is one of the conspicuous bargains in public recreation.

We look now for a proposal for the development of this area's zoo to come from a private sector, commercial organization -- well capitalized, well equipped with management skills, and sophisticated in development experience. It could start with the identified site provided by the public. It should develop and operate the zoo itself, using private capital resources. It might well be able to repay the capital costs, and to finance ongoing operations, from revenues at reasonable levels. It might be able to significantly speed the development timetable. And such an organization should be able to offer vastly greater skills in promotion and marketing -- thereby enhancing the economic attractiveness of the zoo to the Twin Cities area. It should still be possible to work with the private Zoological Society, which the League report said should have a major role in the planning, promotion and operation of the program.

Housing. The Citizens League has suggested that a fully meaningful solution to the area's housing problem requires a shift of point of view . . . from expanding the supply of new houses to expanding the supply of used houses.

In 1969 our report documented the failure of public agencies to solve the problem by building . . . particularly solve the problem of housing for low- and moderate-income families, and to make a dent in the backlog of substandard housing in the area. In 1971 our report suggested that -- with about 650,000 housing units in

the metropolitan area, and roughly 20,000 added to the stock in a good year -- most people inevitably must find their housing from among used units. We concluded from this that the supply of used housing is critical. We noted that an adequate supply of used housing is not coming onto the market . . . though large quantities of under-utilized housing appear to exist, particularly in the central cities. Both reports -- looking, at that time, toward government for a solution -- urged the creation of a regional public agency to describe housing needs in terms of the size and income level of families, and to describe the housing stock in terms of the size, condition and price of units . . . and to plan a better allocation of units among the population. They urged, as well, new programs to encourage the turnover of units that would make larger numbers of houses available from the existing stock.

No action was taken, and we suggest now that it is time to make a start privately. We doubt this can be done through the existing real estate industry . . . which brokers units put on the market by their owners and which does not operate an aggressive program actually to bring units onto the market. (Most home owners will be familiar with the postcards which arrive at infrequent intervals, inquiring casually, "You wouldn't like to sell your house, would you?")

We would like to see several organizations really sophisticated in marketing try their hand at stimulating a turnover of the housing stock. This would almost certainly require much more aggressive advertising . . . and probably an approach which offered the potential seller an attractive relocation opportunity at the same time. We think it is perfectly conceivable, for example, that approaches could be made to couples whose children have left home or to single elderly persons, offering, say, a specific opportunity for townhouse living, with snow removal and other maintenance services provided, and introducing at the same time a young family as potential buyers for the under-utilized house. If companies can successfully offer services which match up men and women for dating, or marriage, purposes, it seems likely a computer program also could match up persons wanting to sell, and buy, housing. We understand such are, in fact, appearing in some cities. If rehabilitation of the house is required before it can be rented or sold to a new, younger family, the real estate or construction department of a company might well undertake that work as part of the same integrated operation.

The need for such a program to improve utilization of the housing stock seems beyond dispute. While it is particularly a problem for low-income families, it is by no means confined to this income level. Our 1969 report was, in fact, entitled "Adequate Housing Is Now Everybody's Problem". Children of the post-war baby boom now appear to be stacking up in suburban apartments. With construction costs at present levels, the great majority of them is unable to afford a new house. Somehow, they must find their way into the existing stock. There is potential here for serious social conflict, should they come to understand the ways in which tax laws are being manipulated by the present occupants of these houses to continue the misallocation of units. There would appear to be a substantial public interest, also, in the strengthening of the economic and social structure of the central cities which would result from the in-migration of these younger, working families . . . into the cities where an adequate school plant exists and where school populations are presently declining.

There is also a need -- which might be translated into a commercially attractive market -- for "housing management" in the narrower sense, of physical maintenance.

The Urban Institute has reported that the most rapidly expanding factor stimulating the need for additional housing construction is not the growth of population, but the accelerating decay of sound existing dwellings. Service and maintenance costs are continuing to rise, and continue to be -- at present (and, except for an urban renewal project area) -- exclusively the responsibility of the individual property owner. Elderly property owners, particularly, are therefore tempted almost irresistibly to skimp on housing maintenance expenditures. The Institute concludes that the nation needs -- but does not presently have -- an adequate housing maintenance industry. Individual apartment buildings, like commercial office buildings, are frequently professionally managed. And management firms have emerged for townhouse projects, to provide maintenance services on contract to the "homes association" typically set up by the developer at completion of the project. But (again, except for the limited duration of a rehabilitation project under the urban renewal program) we know of no effort to treat, say, a block of single-family homes as, in effect, a condominium, for which snow removal, buildings and grounds maintenance, repair services and financial advisory services could be provided. The question is: Could there be?

Neighborhood Health Care. Our 1970 report was focused on the problem of Hennepin County General Hospital . . . but more broadly dealt with the need for improved accessibility and availability of care, and on the need to shift the emphasis from in-patient to out-patient service; and from the treatment of illness to the preservation of health. The report applies generally to the health care system, private as well as public.

Looking again toward government, we urged the Metropolitan Health Board to seek innovative ways for the delivery of health care.

Our committee received substantial testimony to the migration of private doctors out of neighborhoods in the inner city, leaving these residential areas substantially deprived of reasonable access to primary care facilities. And we recognized a growing desire of the residents of the areas to have such facilities in their own neighborhoods. We note, now, that this desire has recently been reaffirmed in testimony presented to the Health Board during its consideration of the application for reconstruction of Hennepin County General Hospital,

Perhaps, here, too, it is time for an aggressive move by the private sector . . . and from a new part of the private sector . . . to fill this gap. We think it is possible to consider the establishment of several neighborhood primary care centers, especially in the inner-city areas of the Twin Cities metropolitan region. We are not unaware of the substantial difficulties presented. But it is unclear to us that the only organization competent to provide facilities and staff to meet this evident demand for service is an organization owned and established by doctors themselves. Medical care itself, of course, must be delivered and supervised by doctors. But it seems conceivable, at least, that a primary care facility could be established and managed by some other kind of corporate organization, perhaps on a "no profit" basis, with a contract let to a medical group for the actual provision of service, since it seems only doctors can legally deliver medical care. In some respects, the necessary business and management skills might be better provided in this way than by asking doctors to provide these themselves. Such an arrangement might also make more possible the active involvement, in the operation of the primary care centers, of the locally based neighborhood groups now seeking this service. And -- if such centers were proposed by a number of local business firms -- these resident groups would be provided with a substantially expanded range of choices, and a measure of accountability would be introduced into the health care system, which does not exist at present.

De-toxification programs. An immediate opportunity exists -- at least in Hennepin County -- for the provision of this service, required of counties by the 1971 Minnesota Legislature, which redefined drunkenness as an illness. Two somewhat separate functions are really involved: One is the short-term (3-day) detention of alcoholics; the other is the longer-term rehabilitation of alcoholics. It was only the first that was put into operation by Hennepin County earlier in 1972. Currently the county faces the need both to provide an enlarged facility for the short-term program and to develop the staff and content of the longer-term rehabilitation program. The key question before the county is whether to undertake the acquisition or construction of a facility, and the establishment of the rehabilitation program, itself . . . or to submit a "request for proposals" to other parties interested in performing this service (perhaps also including the facility) by contract. A report from the county staff, evaluating the two alternatives, is due in November.

7. *Some special cautions will have to be taken in purchasing services . . . where "services" may involve facilities or other capital items.*

As our report notes, we are not talking just about "personal services." The effort is to purchase, for example, rehabilitation of alcoholics, not just the time of counselors; or education (in the sense of outcomes), not just the time of teachers. The supplier will provide all the inputs . . . some of which, certainly, will involve staff, but some of which -- in his discretion -- may also involve equipment (teaching machines, perhaps) and/or facilities. The supplier may feel he can do the job without expensive facilities (or, equally important, without having to buy facilities). But these may . . . in reality, probably, are likely to . . . be needed. And we would not want to rule this out. To do so would in all cases involve the public in the ownership of the property, and would result in it purchasing really only -management services.

If, however, the contract is going to include facilities, and the cost of capital, some dangers will have to be recognized, and kept in mind.

One potential danger arises where a service requires not just (say) automobiles, or a simple shell building, but a unique and expensive "one-of-a-kind" facility. Here, a contract calling for this to be provided by the supplier might well catch the public agency up, again, in precisely the problem it was originally trying to escape.

If, for example, a highly specialized building had to be provided in the delivery of a particular service, the first contracting supplier might well -- as a practical matter -- have secured himself a preferential (if not monopoly) position: if he owns the only building of the type needed to furnish the service, who else can, realistically, compete? At times, where this problem can clearly be anticipated, it is solved . . . through public ownership of the facility, with a contract only for the management of the operation. (The public acquisition of the area's bus fleet, and the subsequent management contract for its operation, is a case in point.) But not all cases are so clear. So it is a concern that must be watched.

We should recognize, too, that where these kinds of service contracts exist the public -- voters, in bond referenda, or members of governing bodies -- will no longer see decisions about equipment or facilities acquisitions arise in the way they have, or do, under traditional arrangements. Instead, now, the contracting supplier will provide the capital, and its cost will be a part of the annual

contract payment. The important thing, clearly, is to have -- before any decision -- a full disclosure and analysis and evaluation of the two different approaches to providing the service ("ownership" and "leasing," in effect). The full cost, over the entire term of the contract, must be known, and considered.

Significant commitments will be involved in purchase-of-service arrangements, too, in part as a result of the supplier's need to be assured a sufficiently long term to permit recovery of the investment he must make . . . planning and design expense, and administrative expense, as well as capital expense.

We have not dealt at length, in this report, with the complications involved in the purchase of services. This does not mean we are unaware . . . or are reluctant to indicate . . . that they exist. They will be, we assume, as difficult as those involved in the purchase of (as we have termed it) hardware. The fact that these complications exist, on the other hand, does not represent, either, an argument against experimenting with purchase-of-service. It may very well turn out to have fewer problems, on balance, than the system in which public agencies produce services themselves.

8. *It is critically important to understand the different forms "purchasing" can take. We have probably talked most about a government buying directly, on behalf of some recipient group. (For example, corrections services.) But it is possible for government to buy indirectly . . . paying the bill, one way or another, but letting the recipients of the service decide what supplier they want to use.*

Our discussion of contracting (with the buying done directly by the governmental body) is probably keyed mainly to areas in which the recipients, for one reason or another, cannot, or should not, make the selection themselves. We have cited corrections as an example. Education is another . . . at least in the minds of people who believe that "free choice of school" would rapidly produce a highly stratified socio-economic pattern that would be undesirable in terms of community goals. There are some areas also in which the service is difficult for the consumer to evaluate. And there can be a need for contracting in areas where the government has long had a "monopoly" on the service, and where no possible alternate supplier exists, and would appear only if stimulated by a deliberate effort on the part of the public agency interested in broadening its range of services.

The purchase-of-service from a supplier directly by a public body is not, however, the only kind of purchasing to which the arguments in this report apply. There are large areas where public services . . . like private services or private goods . . . can appropriately and feasibly be selected by individual recipients, and where no monopoly presently exists on the part of a governmental agency. We are speaking, of course, now, of the second problem area discussed in our report (characterized mainly by a large number of small -- and frequently non-profit private providers, typically with little resources of capital and management), in which the principal need is simply for some competent organization to come into the field and begin to perform. In these areas, government can purchase indirectly. This is now done . . . conspicuously in the medical/hospital program, which has in recent years become a public responsibility and is financed now very largely by public dollars . . . but where the established policy of "free choice of vendor" permits the recipient to go to the doctor or hospital he prefers, with the government undertaking then to pay the bill for services incurred. A variation of this proposal would simply provide for the money (or a chit good for a given amount of services) to the recipient ahead of the time he goes to the doctor, hospital or other provider. This is, as we understand it, essentially the

"voucher system" proposal for schools.

A number of thoughtful and responsible people look toward greater use of this approach . . . of "allowances" . . . for the financing of expanded programs of social service. Whether the allowances take the form of prepayment or post-payment . . . cash or voucher . . . restricted allowances (as for housing) or general family allowances . . . makes really very little difference. In any case, the central principle is the choice of supplier by the recipient of the service. This has, clearly, one notable result: the pattern of choices defined by the decision of a large number of individual consumers provides -- as a government contract with a supplier does not -- a meaningful evaluation and assessment of the supplier's performance.

In practice, the arrangements developed for supplying social services in the Twin Cities area under Title IVA of the 1967 federal law has contained a mixture of both direct and indirect purchase. Contracts, and free choice of vendor, seem to exist together. With summer camping, for example, or day care, there is no concept (as there is in public schools, for example, or in private utilities) of an exclusive franchise for a supplier to serve a defined geographic area. The recipient can go where he wishes and (assuming he meets the income limitations) can have his bill paid. There is also, then, a contract between the county and the camp, or day care center, the function of which appears to be primarily regulatory, and aimed at setting standards for the program and defining the terms of payment. It also functions as a kind of consumer protection device. The difference between this and the model present in medical/hospital services seems to be that, in social service areas, regulatory authority is thereby put into the hands of the same agency that is paying the bill for the service. With respect to medical/hospital services, of course, it is the county that pays the vendor and various state agencies that regulate the provider as to quality of facilities and service.

It should be clearly understood that in this report we are looking at both types of purchasing, and equally favorably. Perhaps we have talked mainly about governmental contracting . . . as, for example, for corrections services, or, perhaps, education . . . but we are interested equally in new ways of delivering social services, purchased directly by individuals and families. If we have, in the report, spent less time on the latter, it is perhaps because less is required of government here: in most cases, nothing more than a decision to remove, or not to erect, barriers that restrict certain kinds of suppliers. An expansion of government allowances is probably, also, logically required: We made no such recommendation largely because through most of our work a really dramatic expansion of federal funding (through the Title IVA program) was under way . . . so rapid, in fact, that no recommendation for expansion seemed necessary. Just at the end of our work, Congress became rather suddenly aware of this program and determined to "close the end" on its appropriations. It may be that, given this, our report does not sufficiently consider the funding of any program of services purchased by recipients.

Finally, there remains, of course, the whole area . . . the "market" . . . above and beyond the level of income that determines eligibility for federal assistance. Housing (housing services, as well as housing construction) health, day care, etc. are all purchased by middle and upper-income populations, as well as by lower and lower-middle-income populations. And new ways of providing services are as important for the former as for the latter. We have dealt with

this scarcely at all since no government action whatever would seem required, here. Our hope is simply that other kinds of suppliers, seeing an opportunity for at least a limited profit, and recognizing the community benefits that might flow indirectly from such programs, will, on their own initiative -- or perhaps at our urging -- enter this field. And, of course, that government will encourage this, even if not participating in the financing.

9. *There have, to be sure, been efforts in recent years toward contracting, and the purchase of service from private organizations.*

Both the experiments, and their results, have been controversial. But it was far from clear to us that they have been -- in total, or even on balance -- a failure. Nothing in the record, at any rate, seemed to us to argue against the broader effort to implement a purchase-of-service policy which we now propose.

There is, for example, we know, the OEO report critical of the effectiveness of the performance-contracting experiments which that agency conducted. There is, at the same time, the RAND Corporation report which makes a generally favorable evaluation on the performance-contracting experiment in Gary, Indiana, to date.

Nor does the termination of the Job Corps camps necessarily mean they were not effective while in operation, or not useful to the government in its efforts to improve the skills and employment prospects of disadvantaged youth.

We have found -- and would expect -- results to be uneven . . . just as they tend to be when programs are produced directly by the governmental agencies themselves.

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